

TOOLS FOR GROWTH

In the concluding part of our series on sustainability, **Jack Cunningham** considers wider trends and what needs to be done to help organisations to understand its importance

Last month, I explored some of the motivations for companies to embed sustainability. I also briefly introduced a thought leadership report, *Going beyond philanthropy?*, that PwC produced earlier in the year. In this second part, I will delve more deeply into the findings of that report and discuss the wider trends that we are seeing in the Asian market.

Let's start with first principles. What is sustainability? Is sustainability actually corporate responsibility? Is sustainability simply good business practice? Is sustainability just a Western construct? These questions are deliberately rhetorical but they do highlight one observation of the slow growth of sustainability in Asia: that it is still far from understood and even less well agreed on.

I was recently challenged by a CFO of a major Malaysian telco when I presented some thoughts on how to make his business more sustainable. We had a positive discussion but he concluded (in his own words) that 'sustainability is just jargon for energy efficiency'. I offered a view that sustainability is also a balance of social and financial management, and that it furthers your reputation and helps to attract and retain talent. His comment reinforces what we found in our report – that sustainability is still at an embryonic stage. The levels of understanding among companies are disparate and its implementation applied inconsistently.

Our survey is a healthy pulse-check on sustainability in the region. We had a good response rate, so it's a fair indicator of the industry outlook and current sentiments. Clearly what we see is that companies are still moving up the learning curve and finding their own way of doing things.

No clear strategies

The majority say that sustainability is extremely or very relevant to them, but this isn't backed up by action; only 3% have a leadership structure in place to drive sustainability and only one in five say it is an item on their board agenda. At the more operational level, only about a third currently have a dedicated sustainability team in place to drive, monitor and measure their sustainability strategy. These insights perhaps simply reflect how nascent sustainability is and the belief of many companies that growth at all costs is the main measure of success.

Once we break down sustainability into constituent parts, we find that only 10% are planning sustainability properly. Companies should take the following into account to ensure that sustainability is properly embedded in their business strategy:

- * aligning sustainability strategy to business goals
- * paying attention to industry-specific issues (as opposed to generic or industry unrelated issues)
- * using established methods to monitor and measure sustainability success
- * factoring sustainability activities into annual planning and budgeting
- * addressing all key sustainability dimensions in the company's sustainability framework
- * planning in advance for sustainability as a long-term issue.

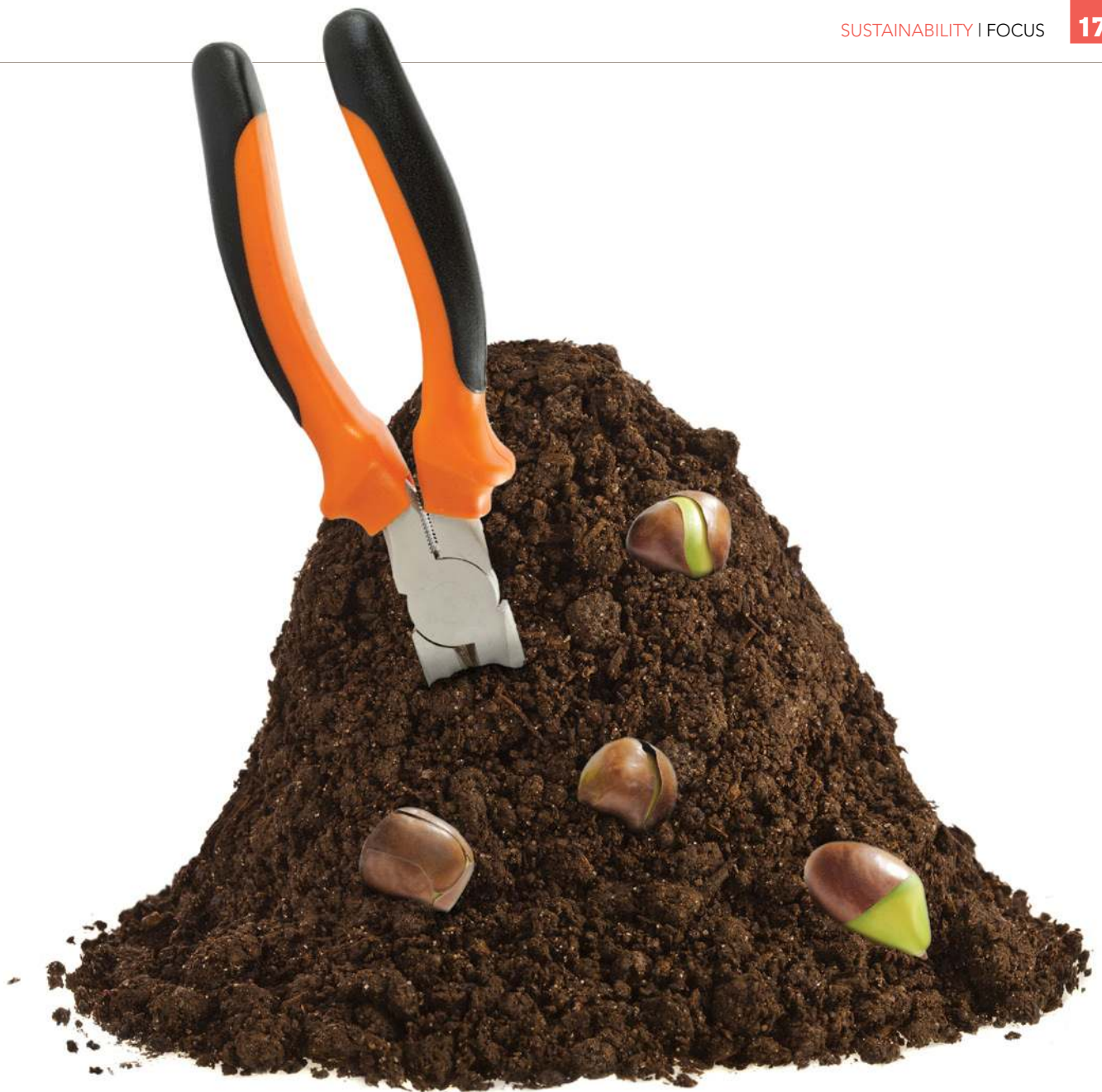
Insurance policy

This finding is further supported in terms of how companies are (or are not) using sustainability as a means by which to think about and prepare for longer term resilience. Only 7% are currently doing the following: collaborating across the value chain on sustainability risks and opportunities, working with external stakeholders to

||| DESPITE GROWING PRESSURE TO ENGAGE IN OPEN DIALOGUE, MOST COMPANIES STILL AREN'T TRANSPARENT IN HOW THEY COMMUNICATE

co-create solutions, and creating a sustainability risk profile of game-changing issues that may affect the business in the next five to 10 years. Thinking about sustainability in terms of longer term risk is a relatively new discipline so it is perhaps not surprising that this is yet to be fully understood in the ASEAN (Association of Southeast Asian Nations) countries.

Another area companies are still unclear about is their approach to engaging stakeholders on sustainability. The majority of companies in our survey said that they engage their stakeholders and cite their employees as their main stakeholder group – no different from most companies in general. The breadth of stakeholders is limited, though, with traditional external stakeholders (such as non-governmental



organisations or media) very much under engaged. Overall, only 12% of the companies we surveyed said they engage all stakeholders while about half said they engage fewer than five groups of stakeholders.

Despite the growing trend and pressure on most companies to engage in open dialogue, most still aren't very transparent in how they communicate and share information. Just over 20% of companies said that stakeholder dialogue is published and shared. At face value, it seems like quite a high number, given the nascent practices globally in disclosing dialogue with stakeholders. One responding company said of stakeholder engagement: 'We are at the initial stages of our sustainability journey so stakeholder engagement is not managed in a planned

manner and is dependent on markets and issues at hand.' Again, this approach is by no means uncommon and shows that companies are still getting to grips with how they prioritise this exercise.

Communication from the top is also lacking. Engagement from leadership is not strong, particularly as less than half of respondents said that their leadership is actively involved in communicating their sustainability achievements, missing out on the opportunity to engage employees and reinforce values.

There is some good news despite the seemingly bleak situation. When it comes to publicly reporting what companies are doing, at least this basic level of disclosure is on the rise in the region. We observe, not just from »

our survey, but empirically from discussions with our clients, that companies want to showcase their achievements and demonstrate their progress. While this might sound like PR is a major driver (which it may well be), there is also a sense that most are also doing it because they believe it is the right thing to do. But equally, many companies simply stated that the only reason they are reporting is because the regulators require them to do so.

IT IS CLEAR THAT THERE IS A FEELING THAT REPORTING IS NOT A PRIORITY BECAUSE OF THE PERCEIVED COSTS AND LACK OF CLARITY

Burden concern

While some of the regulators in ASEAN are starting to put in place roadmaps to signal to companies what their longer term reporting requirements are, in Malaysia there is a concern that companies are being burdened with too much reporting. This also feeds through in terms of how companies seek assurance from a third party for what they are doing. Our survey found that only about 20% of companies are seeking assurance on sustainability reports, but thankfully the majority of those are using credible organisations and not individuals who are not qualified to perform an independent audit. Some companies shun the entire idea of using external verification; one utilities company that responded said: 'Our report is backed up by stakeholders' testimonials which we think are more credible than consultancy firms' – a disappointing view if you are a consultant but also not that uncommon.

Speaking to many companies, as well as some of the regulators in the region, it is clear that there is a feeling that reporting is not a priority because of the perceived costs involved and the lack of clarity over why they need to report. In contrast, other companies are welcoming,

if not pushing for more disclosure requirements.

Unsurprisingly, such companies tend to be regionally based multinationals or the exceptional few forward-looking local companies that recognise that the business world is moving into a more open phase.

Some companies are going even further than simply reporting. These companies are looking at the value added to their business by being more sustainable and disclosing certain environmental, social and governance (ESG) indicators. The hypothesis is that the more transparency there is, the more likely the market will price ESG factors into company valuation. A client of ours in Malaysia is seeking to understand the 'true value' of these factors in assessing

which companies they should invest in. They believe that by understanding this true value, they can help to influence the market to be more sustainable and, in so doing, hope to 'realise' this value ahead of their competitors.

This type of work is based on increasing disclosure requirements, aligned to how the international accounting bodies are developing guidelines on integrated reporting. Whether investors will realise the importance of these ESG indicators in a more 'transparent' world is still to be truly understood, however.

Overall, our survey findings show that sustainability in ASEAN is still very much at a nascent phase, but the fact that we had a good response rate and that reporting is on the rise are positive signs. It is also encouraging that many companies say they are at least aware of the longer term pressures and are starting to build the right steps to being more sustainable. We anticipate that if we were to repeat this exercise in a year's time, the results may well be improved. Reporting is likely to be a continuing trend and we expect that stakeholder engagement might also be an area that improves. If the region's trends mirror global regulatory trends, then energy and carbon will likely be a key area of focus. Regardless, we will continue to encourage those companies that are starting their journeys and applaud them for their efforts so far. ■


Jack Cunningham is an executive director in PwC Malaysia's sustainability and climate change team

CHALLENGE FOR ASEAN FIRMS

How are ASEAN firms managing sustainability and what are the key driving forces? PwC's survey takes a first-of-a-kind regional look at how firms are strategically embedding sustainability across their business. In particular, it studies the maturity of sustainability and comes to some striking conclusions.

The survey polled the responses of more than 700 sustainability practitioners from prominent companies across industries in Malaysia, Thailand, Indonesia, Philippines and Vietnam. More than 200 responses from firms across various industries were received.

FOR MORE INFORMATION:

'Toolkit or fad?', *AB.MY*, October 2013, www.waccaglobal.com/ab26 

PwC's report, *Going beyond philanthropy?*, is at tinyurl.com/pwcsustainability 

Going beyond philanthropy? Key findings: <http://tinyurl.com/pwc-film> 